MEMORANDUM

TO: Various Interested Parties

FROM: John R. Axe, Axe & Ecklund, P.C.

DATE: November 15, 2006

RE: Amendment to Public Act 34 of 2001 to Permit Issuance of Retirees Health Care Bonds

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On July 26, 2006 Senate Bill 1360, a copy of which is attached hereto, was introduced in the Michigan State Senate. This legislation would permit a new type of bond issue. This legislation is on the Senate floor.

The purpose of the legislation is as follows:

> In the last five years, a number of municipalities and states have issued bonds for the purpose of providing funds for pension obligations of one sort or another which such municipality or state must meet in the future.
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> Because these types of obligations were not common before the Revised Municipal Finance Act was adopted in 2001, there was no provision included in the act to authorize the issuance of such obligations.
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> At the present, if a municipality in Michigan wishes to issue such an obligation, the only way it may do so is to create a trust by contract between the municipality and the retirement system and then issue Trust Certificates, which are an obligation of the trust. These Trust Certificates are then sold like municipal bonds to raise the money. The obligation of the municipality to make the contract payments are valid obligations of the municipality and are used to repay the Trust Certificates.
>
> For instance, in June of 2005, the City of Detroit issued such Trust Certificates to provide funds for its general and police and fire retirement systems. A copy of the front

page of the offering circular for that bond issue is attached hereto.

Because the issuance of Trust Certificates is cumbersome and because the contract payments are the security, such certificates do not sell nearly as well as a bond issue and the result is a higher rate of interest which raises the costs to the municipality.

This legislation will authorize exactly the same type of obligation as would result if Trust Certificates were used but will result in substantially lower interest costs to the municipality. Otherwise the obligation of the municipality will be identical. For instance, this legislation would not allow any levy of any tax which was not already authorized for the municipality.

Based on an analysis done earlier this year, an issuer which borrowed $500,000,000.00 could expect to save more than $23,000,000.00 in interest cost if the amendment included in Senate Bill 1360 is approved and signed into law.

An explanation of the legislation is attached as well.

las.m-amendment-Act34

New Issue – Book-Entry Only DAC Bond

This Offering Circular provides information about the Certificates. Information on this cover page is for ready reference. A prospective investor should read the entire Offering Circular to make an informed investment decision.

$1,440,000,000
TAXABLE CERTIFICATES OF PARTICIPATION SERIES 2005
issued by the DETROIT RETIREMENT SYSTEMS FUNDING TRUST 2005
evidencing undivided proportionate interests
in the rights to receive certain payments
pursuant to two Service Contracts between
CITY OF DETROIT, MICHIGAN
and
DETROIT GENERAL RETIREMENT SYSTEM SERVICE CORPORATION
and
DETROIT POLICE AND FIRE RETIREMENT SYSTEM SERVICE CORPORATION
$640,000,000 SERIES 2005-A (FIXED RATE)
$800,000,000 SERIES 2005-B (FLOATING RATE)

Dated: Date of Delivery **Due:** June 15 as shown on the inside cover

Ratings	*See page 20*
Interest Payment Dates	*Series 2005-A:* December 15, 2005 and each June 15 and December 15 thereafter *Series 2005-B:* September 15, 2005 and the 15th day of each December, March, June and September thereafter
Redemption	Series 2005-A Certificates maturing in 2020 and 2025 are subject to *pro rata* mandatory sinking fund redemption at par. *—See page 9* Series 2005-A Certificates are subject to optional redemption on any date with a make-whole premium. *—See pages 9-10* Series 2005-B Certificates maturing in 2014 and 2025 are subject to *pro rata* mandatory sinking fund redemption at par. *—See pages 12-13* Series 2005-B Certificates are subject to optional redemption on any Interest Payment Date at par, beginning June 15, 2007. *—See page 13*
Source of Payment	Principal of and interest on the Certificates are payable, when due, solely from COP Service Payments to be paid by the City under the Service Contracts.*—See pages 7-8*
Insurance	The scheduled payment of principal of and interest on the Certificates will be guaranteed under the insurance policies (as specifically indicated on the inside cover of this Offering Circular with respect to particular Certificates) to be issued concurrently with the delivery of the Certificates by Financial Guaranty Insurance Company and XL Capital Assurance Inc. FGIC Financial Guaranty Insurance Company XL CAPITAL ASSURANCE
Tax Matters	Interest on the Certificates is subject to U.S. federal income tax and State of Michigan income tax.
Purpose	The Certificates are being issued to provide moneys to fund certain unfunded accrued actuarial liabilities of each Retirement System of the City.*—See pages 5-7*
Denominations	*Series 2005-A:* Multiples of $5,000 *Series 2005-B:* $25,000 and multiples of $1,000 in excess thereof
Closing	On or about June 2, 2005
Global Book-Entry System	Clearance is expected to be available through The Depository Trust Company (the depository for the Certificates), Clearstream, and Euroclear.
Global Offering	The Certificates are offered globally for sale in jurisdictions where it is lawful to make such offers.*—See page 19*
Stock Exchange Listing	Application will be made for the Certificates to be listed on the Luxembourg Stock Exchange. There can be no assurance that this listing will be obtained. The issuance and settlement of the Certificates is not conditioned on the listing of the Certificates on the Luxembourg Stock Exchange.
Certificate Counsel	Lewis & Munday, A Professional Corporation*—See page 21*
Trustee	U.S. Bank National Association

Book-Running Manager

UBS Financial Services Inc.

Co-Senior Managers

Citigroup Global Markets *(Series A only)* **Loop Capital Markets, LLC** *(Series A & B)*
Merrill Lynch & Co. *(Series A & B)* **Morgan Stanley** *(Series A & B)*
Siebert, Brandford, Shank & Co., LLC *(Series A only)*

Co-Managers for Series 2005-A Certificates Only

ABN AMRO Financial Services, Inc. A.G. Edwards & Sons Inc. Bear, Stearns & Co. Inc. Capital Management Group Securities, LLC
Comerica Securities First Albany Capital JPMorgan Lehman Brothers M.R. Beal & Company
Oppenheimer & Co., Inc. Popular Securities, Inc. Raymond James & Associates, Inc.

This Offering Circular is dated: May 25, 2005

EXPLANATION OF PROPOSED LEGISLATION PERMITTING ISSUANCE OF PENSION OBLIGATION AND OTHER ACTUARIALLY BASED OBLIGATION BONDS

In the last five years, a number of municipalities and states have issued bonds for the purpose of providing funds for pension obligations of one sort or another which such municipality or state must meet in the future.

Because these types of obligations were not common before the Revised Municipal Finance Act was adopted in 2001, there was no provision included in the act to authorize the issuance of such obligations.

At the present, if a municipality in Michigan wishes to issue such an obligation, the only way it may do so is to create a trust by contract between the municipality and the retirement system and then issue Trust Certificates, which are an obligation of the trust. These Trust Certificates are then sold like municipal bonds to raise the money. The obligation of the municipality to make the contract payments are valid obligations of the municipality and are used to repay the Trust Certificates.

For instance, in June of 2005, the City of Detroit issued such Trust Certificates to provide funds for its general and police and fire retirement systems.

Because the issuance of Trust Certificates is cumbersome and because the contract payments are the security, such certificates do not sell nearly as well as a bond issue and the result is a higher rate of interest which raises the costs to the municipality.

This legislation will authorize exactly the same type of obligation as would result if Trust Certificates were used but will result in substantially lower interest costs to the municipality. Otherwise the obligation of the municipality will be identical. For instance, this legislation would not allow any levy of any tax which was not already authorized for the municipality.

SENATE BILL No. 1360

SENATE BILL No. 1360

July 26, 2006, Introduced by Senator CASSIS and referred to the Committee on Finance.

A bill to amend 2001 PA 34, entitled

"Revised municipal finance act,"

by amending section 103 (MCL 141.2103) and by adding sections 518 and 519.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

Sec. 103. As used in this act:

(a) "Assessed value", "assessed valuation", "valuation as assessed", and "valuation as shown by the last preceding tax assessment roll", or similar terms, used in this act, any statute, or charter as a basis for computing limitations upon the taxing or borrowing power of any municipality, mean the state equalized valuation as determined under the general property tax act, 1893 PA 206, MCL 211.1 to 211.157.

(b) "Chief administrative officer" means that term as defined

SENATE BILL No. 1360

in section 2b of the uniform budgeting and accounting act, 1968 PA 2, MCL 141.422b.

(c) "Debt" means all borrowed money, loans, and other indebtedness, including principal and interest, evidenced by bonds, obligations, refunding obligations, notes, contracts, securities, refunding securities, municipal securities, or certificates of indebtedness that are lawfully issued or assumed, in whole or in part, by a municipality, or will be evidenced by a judgment or decree against the municipality.

(d) "Debt retirement fund" means a segregated account or group of accounts used to account for the payment of, interest on, or principal and interest on a municipal security.

(e) "Deficit" means a situation for any fund of a municipality in which, at the end of a fiscal year, total expenditures, including an accrued deficit, exceeded total revenues for the fiscal year, including any surplus carried forward.

(f) "Department" means the department of treasury.

(g) "Fiscal year" means a 12-month period fixed by statute, charter, or ordinance, or if not so fixed, then as determined by the department.

(h) "Governing body" means the county board of commissioners of a county; the township board of a township; the council, common council, or commission of a city; the council, commission, or board of trustees of a village; the board of education or district board of a school district; the board of an intermediate school district; the board of trustees of a community college district; the county drain commissioner or drainage board of a drainage district; the

board of the district library; the legislative body of a metropolitan district; the port commission of a port district; and, in the case of another governmental authority or agency, that official or official body having general governing powers over the authority or agency.

(I) "HEALTH CARE TRUST FUND" MEANS THE FUND CREATED BY A PUBLIC EMPLOYEE RETIREMENT SYSTEM AND USED TO PROVIDE 1 OR MORE OF THE FOLLOWING:

(*i*) POSTEMPLOYMENT HEALTH CARE BENEFITS FOR PUBLIC EMPLOYEE RETIREES.

(*ii*) THE COSTS OF ISSUANCE OF MUNICIPAL SECURITIES.

(J) ~~(i)~~ "Municipal security" means a security that when issued was not exempt from this act or ~~the municipal finance act,~~ **FORMER** 1943 PA 202, ~~MCL 131.1 to 139.3,~~ by the provisions of this act or by the provisions of ~~the municipal finance act,~~ **FORMER** 1943 PA 202, ~~MCL 131.1 to 139.3,~~ or by the provisions of the law authorizing its issuance and that is payable from or secured by any of the following:

(*i*) Ad valorem real and personal property taxes.

(*ii*) Special assessments.

(*iii*) The limited or unlimited full faith and credit pledge of the municipality.

(*iv*) Other sources of revenue described in this act for debt or securities authorized by this act.

(K) ~~(j)~~ "Municipality" means a county, township, city, village, school district, intermediate school district, community college district, metropolitan district, port district, drainage

district, district library, or another governmental authority or agency in this state that has the power to issue a security. Municipality does not include this state or any authority, agency, fund, commission, board, or department of this state.

(*l*) ~~(k)~~ "Outstanding security" means a security that has been issued, but not defeased or repaid, including a security that when issued was exempt from this act or ~~the municipal finance act,~~ **FORMER** 1943 PA 202, ~~MCL 131.1 to 139.3,~~ by the provisions of this act or by the provisions of ~~the municipal finance act,~~ **FORMER** 1943 PA 202, ~~MCL 131.1 to 139.3,~~ or by the provisions of the law authorizing its issuance.

(M) "PUBLIC EMPLOYEE RETIREMENT SYSTEM" MEANS A RETIREMENT SYSTEM CREATED AND ESTABLISHED BY A COUNTY, CITY, VILLAGE, OR TOWNSHIP.

(N) ~~(*l*)~~ "Qualified status" means a municipality that has filed a qualifying statement under section 303 and has been determined by the department to be qualified to issue municipal securities without further approval by the department.

(O) ~~(m)~~ "Refunding security" means a municipal security issued to refund an outstanding security.

(P) ~~(n)~~ "Security" means an evidence of debt such as a bond, note, contract, obligation, refunding obligation, certificate of indebtedness, or other similar instrument issued by a municipality, which pledges payment of the debt by the municipality from an identified source of revenue.

(Q) ~~(o)~~ "Sinking fund" means a fund for the payment of principal only of a mandatory redemption security.

(R) ~~(p)~~ "Taxable value" means the taxable value of the property as determined under section 27a of the general property tax act, 1893 PA 206, MCL 211.27a.

(S) "UNFUNDED ACTUARIAL LIABILITY" MEANS THE AMOUNT BY WHICH A HEALTH CARE TRUST FUND IS SHORT OF THE AMOUNT THAT WILL BE NECESSARY, WITHOUT FURTHER PAYMENTS INTO THE HEALTH CARE TRUST FUND, TO PAY POSTEMPLOYMENT HEALTH CARE BENEFITS ALREADY EARNED BY BENEFICIARIES AND PARTICIPANTS OF A PUBLIC EMPLOYEE RETIREMENT SYSTEM.

SEC. 518. (1) A COUNTY, CITY, VILLAGE, OR TOWNSHIP MAY BY RESOLUTION OF ITS GOVERNING BODY, AND WITHOUT A VOTE OF ITS ELECTORS, ISSUE A MUNICIPAL SECURITY UNDER THIS SECTION TO PAY THE COSTS OF THE UNFUNDED ACTUARIAL LIABILITY OF A PUBLIC EMPLOYEE RETIREMENT SYSTEM PENSION FUND OF THE MUNICIPALITY WHICH THE PARTICIPANTS AND BENEFICIARIES OF A PUBLIC EMPLOYEE RETIREMENT SYSTEM OF THE MUNICIPALITY ARE ENTITLED TO RECEIVE UNDER AGREEMENTS WITH THE MUNICIPALITY; PROVIDED THAT THE AMOUNT OF TAXES NECESSARY TO PAY THE PRINCIPAL AND INTEREST ON THAT MUNICIPAL SECURITY, TOGETHER WITH THE TAXES LEVIED FOR THE SAME YEAR, SHALL NOT EXCEED THE LIMIT AUTHORIZED BY LAW.

(2) BEFORE A COUNTY, CITY, VILLAGE, OR TOWNSHIP ISSUES A MUNICIPAL SECURITY UNDER THIS SECTION, THE COUNTY, CITY, VILLAGE, OR TOWNSHIP SHALL PREPARE AND MAKE AVAILABLE TO THE PUBLIC A COMPREHENSIVE FINANCIAL PLAN THAT INCLUDES ALL OF THE FOLLOWING:

(A) EVIDENCE THAT THE MUNICIPAL SECURITY PROCEEDS AND REQUIRED ANNUAL CONTRIBUTIONS WILL BE ADEQUATE TO MEET THE LEVEL OF BENEFITS REQUIRED.

(B) AN AMORTIZATION SCHEDULE AND A DESCRIPTION OF ACTIONS REQUIRED TO SATISFY THE AMORTIZATION SCHEDULE.

(C) ACTUARIAL ASSUMPTIONS AND A CERTIFICATION THAT THE COMPREHENSIVE FINANCIAL PLAN IS COMPLETE AND ACCURATE.

(D) EVIDENCE THAT THE ISSUANCE OF MUNICIPAL SECURITIES WILL RESULT IN PROJECTED PRESENT VALUE SAVINGS.

(E) A PLAN FROM THE PUBLIC EMPLOYEE RETIREMENT SYSTEM TO REDUCE HEALTH CARE COSTS.

(3) BEFORE A COUNTY, CITY, VILLAGE, OR TOWNSHIP ISSUES A MUNICIPAL SECURITY UNDER THIS SECTION, THE COUNTY, CITY, VILLAGE, OR TOWNSHIP SHALL PUBLISH A NOTICE OF INTENT TO ISSUE THE MUNICIPAL SECURITY. THE NOTICE OF INTENT SHALL BE DIRECTED TO THE ELECTORS OF THE COUNTY, CITY, VILLAGE, OR TOWNSHIP, SHALL BE PUBLISHED IN A NEWSPAPER THAT HAS GENERAL CIRCULATION IN THE COUNTY, CITY, VILLAGE, OR TOWNSHIP, AND SHALL STATE THE MAXIMUM AMOUNT OF MUNICIPAL SECURITIES TO BE ISSUED; THE PURPOSE OF THE MUNICIPAL SECURITIES; THE SOURCE OF PAYMENT; THE RIGHT OF REFERENDUM ON THE ISSUANCE OF THE MUNICIPAL SECURITIES; AND ANY OTHER INFORMATION THE COUNTY, CITY, VILLAGE, OR TOWNSHIP DETERMINES NECESSARY TO ADEQUATELY INFORM THE ELECTORS OF THE NATURE OF THE ISSUE. THE NOTICE OF INTENT SHALL NOT BE LESS THAN 1/8 PAGE IN SIZE IN THE NEWSPAPER. IF, WITHIN 45 DAYS OF THE PUBLICATION OF THE NOTICE OF INTENT, A PETITION, SIGNED BY NOT LESS THAN 10% OR 10,000 OF THE REGISTERED ELECTORS, WHICHEVER IS LESS, RESIDING WITHIN THE COUNTY, CITY, VILLAGE, OR TOWNSHIP, IS FILED WITH THE GOVERNING BODY OF THE COUNTY, CITY, VILLAGE, OR TOWNSHIP, REQUESTING A REFERENDUM ON THE QUESTION OF THE ISSUANCE OF THE MUNICIPAL SECURITIES, THEN THE

MUNICIPALITY SHALL NOT ISSUE THE MUNICIPAL SECURITIES UNTIL AUTHORIZED BY THE VOTE OF A MAJORITY OF THE ELECTORS OF THE COUNTY, CITY, VILLAGE, OR TOWNSHIP QUALIFIED TO VOTE AND VOTING ON THE QUESTION AT A GENERAL OR SPECIAL ELECTION. A SPECIAL ELECTION CALLED FOR THIS PURPOSE SHALL NOT BE INCLUDED IN A STATUTORY OR CHARTER LIMITATION AS TO THE NUMBER OF SPECIAL ELECTIONS TO BE CALLED WITHIN A PERIOD OF TIME.

(4) MUNICIPAL SECURITIES ISSUED UNDER SUBSECTION (1) BY A COUNTY, CITY, VILLAGE, OR TOWNSHIP SHALL HAVE A MAXIMUM TERM OF 30 YEARS AS DETERMINED BY THE COUNTY, CITY, VILLAGE, OR TOWNSHIP.

(5) MUNICIPAL SECURITIES ISSUED UNDER SUBSECTION (1) BY A COUNTY, CITY, VILLAGE, OR TOWNSHIP, AND CURRENTLY OUTSTANDING, SHALL NOT EXCEED 5% OF THE STATE EQUALIZED VALUATION OF THE PROPERTY ASSESSED IN THAT COUNTY, CITY, VILLAGE, OR TOWNSHIP.

(6) A MUNICIPAL SECURITY ISSUED UNDER SUBSECTION (1) BY A COUNTY, CITY, VILLAGE, OR TOWNSHIP MAY MATURE ANNUALLY OR BE SUBJECT TO MANDATORY REDEMPTION REQUIREMENTS, WITH THE FIRST ANNUAL MATURITY OR MANDATORY REDEMPTION REQUIREMENT TO FALL DUE 5 YEARS OR LESS FROM THE DATE OF ISSUANCE. ANNUAL MATURITY OR REDEMPTION REQUIREMENTS, OR A COMBINATION OF BOTH, OF A MUNICIPAL SECURITY ISSUED UNDER THIS SECTION AFTER 10 YEARS FROM THE DATE OF ISSUANCE SHALL NOT BE LESS THAN 1/5 OF THE AMOUNT OF ANY SUBSEQUENT ANNUAL MATURITY OR REDEMPTION REQUIREMENT, OR COMBINATION OF BOTH.

(7) MUNICIPAL SECURITIES ISSUED UNDER SUBSECTION (1) BY A COUNTY, CITY, VILLAGE, OR TOWNSHIP AND THE INTEREST ON AND INCOME FROM THE MUNICIPAL SECURITIES ARE EXEMPT FROM TAXATION BY THIS STATE OR A POLITICAL SUBDIVISION OF THIS STATE.

(8) A COUNTY, CITY, VILLAGE, OR TOWNSHIP ISSUING MUNICIPAL SECURITIES UNDER SUBSECTION (1) MAY ENTER INTO INDENTURES OR OTHER AGREEMENTS WITH TRUSTEES AND ESCROW AGENTS FOR THE ISSUANCE, ADMINISTRATION, OR PAYMENT OF THE MUNICIPAL SECURITIES.

SEC. 519. MUNICIPAL SECURITIES ISSUED UNDER SECTION 517 OR 518 SHALL ALSO BE SECURED BY THE GENERAL FUND OF THE COUNTY, CITY, VILLAGE, OR TOWNSHIP AND SHALL INCLUDE THE PHRASE "GENERAL OBLIGATION LIMITED TAX" IN THE RESOLUTION AUTHORIZING THE ISSUANCE. THE COUNTY, CITY, VILLAGE, OR TOWNSHIP ISSUING THE MUNICIPAL SECURITIES IS NOT AUTHORIZED TO LEVY ANY TAX NOT AUTHORIZED BY LAW AT THE TIME THE MUNICIPAL SECURITIES ARE ISSUED TO PAY FOR THE MUNICIPAL SECURITIES.